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ANNUAL REPORT

YEAR ENDED DECEMBER 31, 1949

MANGEL STORES CORPORATION

AND SUBSIDIARIES

Since 1938, Mangel Stores Corporation has established a program of improving and modernizing profitable stores and closing unprofitable units. The results of this basic policy find reflection in the following tables:

Year Ending December 31	Number of Stores	Net Sales	Net Working Capital
1943	97	$20,684,145	$1,706,992
1944	95	22,425,419	2,283,623
1945	94	23,446,407	3,492,815
1946	92	21,745,066	2,910,000
1947	90	22,673,345	3,009,757
1948	89	27,081,382	3,373,724
1949	89	25,668,102	4,046,309

Year Ending December 31	Provision for Federal Taxes	Transferred to Surplus	Earnings Per Common Share
1943	$1,681,469	$799,748	$4.14
1944	2,133,812	933,026	4.89
1945	2,072,438	917,976	3.57*
1946	459,604	653,857	2.55
1947	382,845	691,981	2.69
1948	559,369	993,596	3.87
1949	231,190	544,994	2.12

*By reason of the conversion during 1945 of 17,495 shares of convertible preferred stock for 104,970 shares of common, there were outstanding at December 31, 1945, 256,802 shares of common stock as against 176,755 shares of common stock at December 31, 1944. There is no change in the number of shares of common stock outstanding at December 31, 1949.

March 24, 1950.

To the Stockholders of

MANGEL STORES CORPORATION:

There are presented herewith the consolidated statement of income of the Corporation and subsidiaries for the year ended December 31, 1949 and the consolidated balance sheet as of that date.

The sales for the year were $25,668,102. The net income after taxes for the year was $544,994. This represents earnings of $2.12 per share on 256,802 shares outstanding. Both the sales and the net profit were materially affected this past year by the decline in retail prices, especially in the first six months. This necessitated substantial markdowns in order to meet lower prices of all soft goods lines in the wholesale markets. Capital and surplus increased from $5,849,998 to $6,138,191.

The regular quarterly dividends of 25c per share were paid during the year 1949.

During the past year an advantageous long term loan of $2,000,000 was obtained, the proceeds of which were used to prepay an outstanding loan of $800,000 and for expansion and improvements in our stores, which amounted to $1,240,236.

Continuing our policy to improve and expand existing units where justified, there has been completed, or there is in the process of construction this year, improvements and enlargements in the following six locations: Auburn, N. Y., Duluth, Minn., St. Paul, Minn., Watertown, N. Y., and two in San Antonio, Texas.

In addition to the above, it is contemplated that changes and improvements will be made in six additional units during the balance of this year. A new unit will be opened in Tallahassee, Fla., within the next few months.

Changing conditions in the soft goods lines require considerable adjustments in current operations which your Management has already instituted. Intensified merchandising plans have been completed in order to obtain maximum volume. At the same time a program of expense curtailment has been instituted in order to keep expenses to a minimum. Our store personnel have been alerted to the requirements of present conditions and organized to improve sales and service.

It is your Management's opinion that your Corporation is in excellent financial condition and prepared to meet present requirements and those that can be foreseen in the future.

Respectfully submitted,

SOL MANGEL,

President.

MANGEL STORE

AND SUBS

CONSOLIDATED BALANCE SHEE

ASSETS

CURRENT ASSETS:			
Cash on hand and in banks			$ 1,759,336.07
United States bonds and Treasury certificates—at cost, plus accrued interest			20,617.72
United States Treasury notes—at cost, plus accrued interest			752,847.65
Accounts receivable, trade—less reserve (including employees' accounts)			1,056,662.42
Miscellaneous receivable			22,203.46
Merchandise inventory—at the lower of cost or market, based upon the retail method of inventory valuation			1,882,276.94
TOTAL CURRENT ASSETS			5,493,944.26
OTHER ASSETS:			
Loans to employees—less reserve		$ 7,843.38	
Sundry deposits and investments		4,128.40	
Estimated refundable portion of prior years' Federal taxes on income under carry-back provisions of the Internal Revenue Code		126,050.00	138,021.78
FIXED ASSETS:			
Real estate (at values as appraised for the management in June 1932 with subsequent additions at cost) — subject to mortgages shown contra	$ 324,081.55		
Less: Reserve for depreciation	36,155.11	287,926.44	
Furniture and fixtures and leasehold improvements—at cost	5,540,741.93		
Less: Reserves for depreciation and amortization	2,163,960.06	3,376,781.87	3,664,708.31
DEFERRED CHARGES:			
Unexpired insurance		64,339.60	
Prepaid taxes, expenses, etc.		162,812.45	
Stationery and supplies		5,450.00	232,602.05
GOODWILL			1.00
			$ 9,529,277.40

The Notes to Accounts, appended hereto, are an integral part

NOTES TO ACCOUNTS

NOTE A—Under a loan agreement dated March 1, 1949, a loan of $2,000,000.00 was obtained from The Prudential Insurance Company of America evidenced by a promissory note which becomes due March 1, 1961. On September 1, 1949 and on March 1 and September 1 in each year thereafter, until the note shall be paid in full, a payment of $66,000.00 shall be made to apply to the prepayment of the note. The company has an option to make additional prepayments of a similar amount with each prepayment, such option to be non-cumulative. Interest is at the rate of 3⅞% per annum. The payment due September 1, 1949 was made.

The provisions of the loan agreement place certain restrictions on the creation of other loans and the depletion of consolidated working capital and provide that dividends will not be declared or paid subsequent to December 31, 1948 except out of 70% of consolidated net earnings subsequent to January 1, 1949, plus $128,400.00.

Under these provisions, an amount of $253,094.36 of the aggregate surplus at December 31, 1949 is not subject to the dividend restriction.

The bank loan of $1,000,000.00 which was the subject of a loan agreement dated July 1, 1947, and was payable in semi-annual installments of $100,000.00 each to July 1, 1952 was prepaid in full on March 15, 1949.

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T AS AT DECEMBER 31, 1949

LIABILITIES

CURRENT LIABILITIES:			
Note payable—The Prudential Insurance Company of America, installments due within one year—Note A			$ 132,000.00
Accounts payable—merchandise, less discounts			134,294.63
Accounts payable—expenses, taxes, etc.			723,405.14
Customers' deposits on layaway sales			75,846.84
Customers' credits			32,896.87
Mortgage installments payable within one year			6,227.03
Reserve for Federal income taxes			342,964.71
TOTAL CURRENT LIABILITIES			1,447,635.22
NOTE PAYABLE — The Prudential Insurance Company of America, less installments due within one year shown above—Note A			1,802,000.00
MORTGAGES ON REAL ESTATE PAYABLE IN INSTALLMENTS, interest at 4% per annum—less current installments shown above:			
Mortgage payable through September 1, 1964		$ 92,173.81	
Mortgage payable through January 1, 1966		49,276.98	141,450.79
TOTAL LIABILITIES			3,391,086.01
CAPITAL STOCK AND SURPLUS:			
Common Stock — par value $1.00 per share:			
Authorized	300,000 shares		
Issued	282,470 shares	$ 282,470.00	
Less: Treasury stock	25,668 shares	25,668.00	
Outstanding	256,802 shares	256,802.00	
Surplus — Notes A and B:			
Capital Surplus		789,506.00	
Earned Surplus (since January 1, 1936)		5,091,883.39	5,881,389.39
			6,138,191.39
LONG TERM LEASE COMMITMENTS— Note C			
			$ 9,529,277.40

cf this statement and should be read in conjunction herewith.

NOTE B—The Consolidated Earned and Capital Surplus includes undistributed earnings of subsidiaries which may be subject to Federal income taxes if and when received by the parent company in the form of dividends.

NOTE C—The minimum annual rentals upon real property leased for terms expiring more than three years after December 31, 1949 aggregate $758,000.00 as follows:

Years of Expiration	Number of Leases	Minimum Annual Rental
1953-1958	30	$278,000.00
1959-1968	23	210,000.00
1969-1978	17	244,000.00
After 1978	4	26,000.00

Three lease agreements not included above provide for rentals exclusively on the basis of sales.

Certain of the lease agreements provide for additional rentals based on sales or for payment of certain expenses, such as real estate taxes, insurance and maintenance costs.

GENERAL—The accompanying financial statements are subject to final determination of Federal, state and local taxes.

MANGEL STORES CORPORATION
AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF SURPLUS
FOR THE YEAR ENDED DECEMBER 31, 1949

CAPITAL SURPLUS — Notes A and B:		
Balance as at December 31, 1948 and December 31, 1949		$ 789,506.00
EARNED SURPLUS (since January 1, 1936)—Notes A and B:		
Balance as at December 31, 1948	$ 4,803,690.59	
Net income for the year	544,994.80	
	5,348,685.39	
Dividends paid on Common Stock at the rate of $1.00 per share	256,802.00	
Balance as at December 31, 1949		5,091,883.39
		$ 5,881,389.39

The Notes to Accounts, appended hereto, are an integral part of this statement and should be read in conjunction herewith.

CONSOLIDATED STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 1949

Net sales, including leased departments' sales		$ 25,668,102.48
Cost of sales, and general, administrative and selling expenses		24,450,603.59
		1,217,498.89
Provision for depreciation		419,096.43
		798,402.46
Other deductions, less other income		22,217.32
Net income for the year before Federal income taxes		776,185.14
Provision for Federal income taxes	$ 268,890.34	
Less: Estimated refundable portion of prior years' Federal income taxes under carry-back provisions of the Internal Revenue Code	37,700.00	231,190.34
Net income for the year, transferred to Earned Surplus		$ 544,994.80

The Notes to Accounts, appended hereto, are an integral part of this statement and should be read in conjunction herewith.

ACCOUNTANTS' REPORT

TO THE BOARD OF DIRECTORS
MANGEL STORES CORPORATION
NEW YORK, N. Y.

We have examined the consolidated balance sheet of Mangel Stores Corporation and subsidiaries as at December 31, 1949 and the related consolidated statements of income and surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

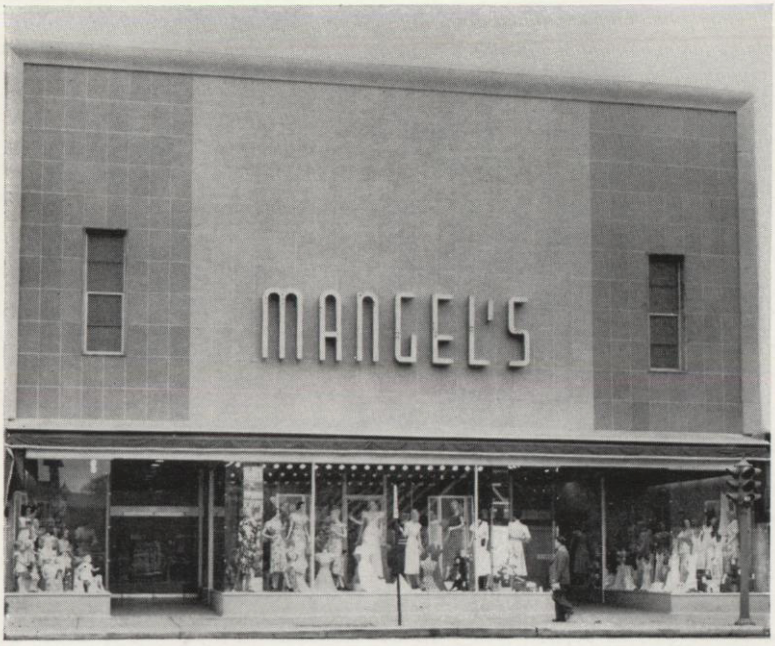
In our opinion, the accompanying consolidated balance sheet and consolidated statements of income and surplus, together with the notes to accounts, present fairly the consolidated financial position of Mangel Stores Corporation and subsidiaries at December 31, 1949, and the consolidated results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

S. D. LEIDESDORF & CO.

New York, N. Y.
March 10, 1950

MANGEL STORES

ARE LOCATED IN THE FOLLOWING CITIES



ALTOONA, PA.
AMARILLO, TEXAS
ANNISTON, ALA.
ASHEVILLE, N. C.
ATLANTA, GA.
AUBURN, N. Y.
AUGUSTA, GA.
AUSTIN, TEXAS
BATON ROUGE, LA.
BEAUMONT, TEXAS
BIRMINGHAM, ALA.
BLUEFIELD, W. VA.
CHARLESTON, S. C.
CHARLESTON, W. VA.
CHARLOTTE, N. C.
CHATTANOOGA, TENN.
CHICAGO, ILL.
COLUMBIA, S. C.
COLUMBUS, GA.
CORPUS CHRISTI, TEXAS
CLINTON, IOWA
DALLAS, TEXAS
DAVENPORT, IOWA
DULUTH, MINN.
FLORENCE, ALA.
FOND DU LAC, WIS.
FORT SMITH, ARK.
GREEN BAY, WIS.
GREENSBORO, N. C.
GREENVILLE, S. C.
HOUSTON, TEXAS
HOT SPRINGS, ARK.
HUNTINGTON, W. VA.
HUNTSVILLE, ALA.
JACKSONVILLE, FLA.
JACKSON, TENN.
JACKSON, MISS.
JAMESTOWN, N. Y.
JOHNSTOWN, PA.
JOPLIN, MO.
KANSAS CITY, MO.
KNOXVILLE, TENN.
LAREDO, TEXAS
LEXINGTON, KY.
LINCOLN, NEB.
LITTLE ROCK, ARK.
LYNCHBURG, VA.
MADISON, WIS.
MACON, GA.
MEMPHIS, TENN.
MERIDIAN, MISS.
MIAMI, FLA.
MIAMI BEACH, FLA.
MOBILE, ALA.
MONROE, LA.
MONTGOMERY, ALA.
MUSKOGEE, OKLA.
NEW ORLEANS, LA.
OMAHA, NEB.
ORLANDO, FLA.
OSHKOSH, WIS.
PADUCAH, KY.
PENSACOLA, FLA.
PHILADELPHIA, PA.
PINE BLUFF, ARK.
RALEIGH, N. C.
ROCKFORD, ILL.
SAVANNAH, GA.
SAN ANTONIO, TEXAS
SELMA, ALA.
SHEBOYGAN, WIS.
STEUBENVILLE, OHIO
ST. LOUIS, MO.
ST. PAUL, MINN.
SPARTANBURG, S. C.
SPRINGFIELD, MO.
SYRACUSE, N. Y.
TAMPA, FLA.
TEXARKANA, TEXAS
TUSCALOOSA, ALA.
WACO, TEXAS
WATERTOWN, N. Y.
WHEELING, W. VA.
ZANESVILLE, OHIO

MANGEL STORES CORPORATION

1107 BROADWAY • NEW YORK 10, N. Y.